# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

## FISCAL IMPACT STATEMENT

**LS 6904** **DATE PREPARED:** Dec 27, 2001
**BILL NUMBER:** SB 280 **BILL AMENDED:**

**SUBJECT:** Venture capital investments.

**FISCAL ANALYST:** Jim Landers
**PHONE NUMBER:** 232-9869

**FUNDS AFFECTED:** X GENERAL **IMPACT:** State
X DEDICATED
FEDERAL

**Summary of Legislation:** The bill establishes the Venture Capital Fund and authorizes the Fund to sell contingent tax credits to public utilities to obtain capital to be used to invest in new high technology ventures in Indiana. The bill also authorizes the Fund to invest in local certified equity pools and other investment groups. The bill requires that each dollar of investment from the Fund must be matched by two dollars of private investment.

**Effective Date:** January 1, 2003.

**Explanation of State Expenditures:** *Venture Capital Fund*: This bill establishes the Venture Capital Fund *not* as a state agency, but as an independent body corporate and politic. Assets of the Fund consist of capital obtained from the pledge of contingent tax credits by public utilities (see "Explanation of State Revenues"). The Fund would be governed by a nine-member board comprised of the Lieutenant Governor and the Treasurer (or their designees) and seven appointees selected by the Governor. The Fund is authorized to adopt rules, take administrative actions, hire employees, and perform other necessary functions. The Fund is directed to solicit proposals from qualified investor groups for investment of capital in qualified Indiana businesses (see below). A single investment in a qualified Indiana business may not exceed 10% of the total assets of the Venture Capital Fund. In addition, each $1 invested must be matched by $2 of private investment.

Qualified Indiana businesses are defined as high-growth, high-skill ventures headquartered in Indiana. These businesses must be independently owned and operated and must employ 70% of employees within the state (95% of whom must be Indiana residents). A qualified business must also be a seed, start-up, or other early stage enterprise in need of venture capital and may not be involved in certain sectors, including real estate, insurance, professional services, and others outlined in the bill.

*Department of State Revenue:* The Department of State Revenue will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate the new contingent public utility tax credit. These expenses can be absorbed given the Department's existing budget.

**Explanation of State Revenues:** *Contingent Public Utility Tax Credit:* This bill authorizes the Venture Capital Fund to sell, on a dollar-for-dollar basis, tax credits to public utilities to obtain capital for the funding of investments. The credits may be taken against a utility's liability under the Gross Income Tax, the Corporate Adjusted Gross Income (AGI) Tax, and the Supplemental Net Income Tax. Utilities must pledge to purchase the credits before January 1, 2005. The aggregate amount of credits allowed under this bill is $50 M, although only $10 M may be allowed in a given calendar year.

The amount of certified credits may not exceed a taxpayer's liability in a given year. Any excess may be carried forward for up to ten years. The bill does not provide for refund or carry back of the tax credits. Revenue from the taxes against which these credits may be taken is deposited in the state General Fund and the Property Tax Replacement Fund. As this bill is effective January 1, 2003, the impact of any tax credits sold in the first year would begin in FY 2004 and would reduce state revenue by up to $10 M.

*Venture Capital Fund:* The revenues which could be generated through this new investment structure are indeterminable at this time.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue; Treasurer; Lt. Governor.

**Local Agencies Affected:**

**Information Sources:**